AN ECONOMIC REPORT
TO THE
GOVERNOR
OF THE
STATE OF TENNESSEE

On the State’s Economic Outlook

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Prepared by the
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Knoxville, Tennessee

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and
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Preface

This 2007 volume of An Economic Report to the Governor of the State of Tennessee is the thirty-first in a series of annual reports compiled in response to requests by state government officials for assistance in achieving greater interdepartmental consistency in planning and budgeting efforts sensitive to the overall economic environment. Both short-term, or business cycle-sensitive forecasts, and longer-term, or trend forecasts, are provided in this report.

The quarterly state forecast through the first quarter of 2009 and annual forecast through 2016 represent the collective judgment of the staff of the University of Tennessee’s Center for Business and Economic Research in conjunction with the Quarterly and Annual Tennessee Econometric Models. The national forecasts were prepared by Global Insight, Inc. Tennessee forecasts, current as of January 2007, are based on an array of assumptions, particularly at the national level, which are described in Chapter One. Chapter Two details evaluations for major sectors of the Tennessee economy, with an agriculture section provided by the University of Tennessee Agricultural Policy Analysis Center. Chapter Three presents the long-run outlook and forecast for the state. Chapter Four discusses the environmental challenges confronting Tennessee today, including issues relating to air pollution, water pollution, and preservation of the Great Smoky Mountains National Park.

The primary purpose of this annual volume—published, distributed, and financed through the Tennessee Department of Finance and Administration, Tennessee Department of Economic and Community Development, the Tennessee Department of Revenue, the Tennessee Department of Labor and Workforce Development, and the Appalachian Regional Commission—is to provide wide public dissemination of the most-current possible economic analysis to planners and decision-makers in the public and private sectors.

Matthew N. Murray
Associate Director and Project Director
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2.1. Introduction

By most broad measures of economic activity, 2006 was a good year for Tennessee. Nonfarm job growth should total nearly 1.3 percent for the year, personal income should be up 6.0 percent and the unemployment rate should average 5.2 percent. The weakness in manufacturing was sustained, however, with a setback of 1.2 percent projected for 2006. The uneven pattern of growth across metropolitan and non-metropolitan areas of the state also continued; rural Tennessee in particular has been hit hard by the loss of manufacturing jobs while metropolitan communities have benefited from strong growth in the service sector.

The short-term outlook for the state calls for slightly slower growth in 2007 than in 2006, with growth then showing some acceleration in 2008. The primary factors weighing down on the economy in the near term include higher interest rates, a slowdown in residential construction, high energy prices and further setbacks in manufacturing. Strong job growth in services should continue to provide an important foundation for economic expansion in metropolitan Tennessee.

The remainder of this chapter explores recent economic trends and the economic outlook for the state. The following section places the outlook in context by considering the current economic environment for Tennessee and other states in the Southeast region. The short-run forecast, extending to the first quarter of 2009, is then presented. The final section of the chapter discusses the situation for the state’s agricultural sector.
2.2. The Current Economic Environment

Economic conditions in Tennessee

Overall state job growth tallied 1.3 percent in 2006 compared to 1.4 percent for the national economy. The service sector has proven to be the primary driver of the state economy in recent quarters. Leisure and hospitality services should see job growth of 3.3 percent in 2006 following 3.5 percent growth in 2005. The education and health services sector was up 2.3 percent in 2006 slowing some from the 2.8 percent growth rate of the previous year. The construction sector saw jobs grow 2.7 percent in 2005 and 3.1 percent in 2006, though growth will slow in 2007 in the face of higher interest rates and slower residential construction activity.

Manufacturing jobs were down 1.2 percent in 2006 on the heels of a 0.8 percent setback in 2005. The nation’s manufacturing sector saw jobs fall at a 0.1 percent rate. Durable goods employment in Tennessee was down 1.0 percent for the year following job gains in both 2004 and 2005. The wood products, nonmetallic minerals and fabricated metals sectors were able to engineer job gains in 2006. The nondurable goods sector experienced job losses of 1.5 percent in 2006, the best showing since 1995. Unfortunately only the food, paper and miscellaneous nondurables’ sector enjoyed job gains in 2006.

The state unemployment rate is projected at 4.8 percent for the fourth quarter of 2006, substantial improvement over the 5.5 percent peak registered in the second quarter of the year. The annual average for 2006 is projected to be 5.2 percent (versus 4.6 percent for the U.S.). This is the lowest annualized unemployment rate in Tennessee dating back to 2000 when unemployment was down to 4.0 percent of the labor force. The fall in the unemployment rate for the year is due to both growth in employed people (2.8 percent) and a decline in the number of unemployed (down 4.4 percent).

Personal income advanced 6.0 percent in 2006, the strongest showing since 2000. Wage and salary income was up 6.8 percent benefiting from exceptionally strong—and unsustainable—growth in the average wage. Proprietors’ income was up only 3.2 percent for the year, following 12.0 percent and 9.6 percent growth in 2004 and 2005. Rent, interest and dividend income showed healthy growth (6.8 percent), buoyed by rising interest rates and strong corporate profits.

Taxable sales growth for 2006 is expected to be 4.8 percent well below the 6.8 percent rate of growth recorded in 2005. Growth for the third quarter was only 0.8 percent, the lowest seasonally-adjusted quarterly growth rate in recent history. While the fourth quarter is expected to show some improvement on a seasonally-adjusted basis, the year-over-year growth rate is projected to be only about 3.0 percent.
2.2. The Current Economic Environment, continued

Spotlight on the Southeast

While Tennessee has enjoyed healthy job growth in the last year, the pace of employment expansion has fallen below that of many other states in the region as shown in Figure 2.1. On a year-over-year basis the Tennessee state economy saw jobs expand at a 1.2 percent pace in the third quarter of 2006, as did Arkansas and Mississippi. The legacy of last year’s hurricane season is apparent in Louisiana where jobs were down by 5.0 percent. Eight states in the region performed better than Tennessee’s 1.2 posting; Florida’s performance of 3.1 percent job growth is especially striking.

The Southeastern states have been known historically for their concentration in manufacturing, though there has always been considerable variation in the dominance of industry across states within the region. On average, manufacturing jobs accounted for 11.9 percent of nonfarm jobs in the Southeast in the third quarter of 2006, ahead of the 10.5 percent average for the nation. Four states have manufacturing job shares that rank

Figure 2.1. Total nonfarm job growth, 2006Q3

Source: Bureau of Labor Statistics
2.2. The Current Economic Environment, continued

below the national average, including Florida, Louisiana, West Virginia and Virginia (see Figure 2.2). Tennessee’s manufacturing share of 14.5 percent places it fourth in the region in terms of industrial importance, behind Arkansas (16.5 percent), Mississippi (15.4 percent) and Alabama (15.2 percent).

Manufacturing jobs for the nation were actually up slightly in the third quarter (0.2 percent) from the third quarter of 2005. Within the Southeast, Alabama, Virginia and West Virginia also saw small gains in manufacturing jobs; Tennessee suffered a 1.3 percent setback. All states in the region other than Louisiana experienced growth in professional and business services and education and health services, while most states also enjoyed growth in leisure and hospitality services and financial activities. (All sectors in Louisiana aside from natural resources/mining lost jobs in the third quarter.)

Figure 2.3 shows unemployment rates that prevailed in October 2006 across the Southeastern states. Louisiana experienced one of the lowest unemployment rates in the region at 4.2 percent despite the 5.0 percent loss in jobs noted above. Outmigration has reduced the Louisiana labor force helping to drive down the unemployment rate. Tennessee’s 4.5 percent unemployment rate matched the rate for the national economy in October and placed it fifth-lowest in the region. Virginia enjoyed the lowest rate of unemployment at 2.9 percent, while South Carolina’s 6.6 percent rate was the highest among the Southeastern states.

Individual wellbeing across the Southeast, as measured by per capita personal income, is shown in Figure 2.4 using data for the second quarter of 2006. The highest levels of per

---

**Figure 2.2. Manufacturing employment as a share of total nonfarm employment, 2006Q3**

- **AR**: 16.5%
- **LA**: 8.2%
- **MS**: 15.4%
- **TN**: 14.5%
- **KY**: 13.9%
- **VA**: 8.0%
- **NC**: 14.0%
- **SC**: 13.5%
- **FL**: 5.0%

Source: Bureau of Labor Statistics
2.2. The Current Economic Environment, continued

capita income are found in Virginia ($39,265) and Florida ($36,316). Mississippi finds itself at the bottom in the region with per capita income of $26,535, well below the national figure of $36,105. Tennessee ranks fourth among the twelve states shown with per capita income of $32,446. (Additional information on incomes across the Southeast and nation is presented in Chapter 3).

Figure 2.3. Unemployment rate, October 2006

Source: Bureau of Labor Statistics

Figure 2.4. Per capita personal income, 2006Q2

Source: Calculated by CBER-UT using data from the Bureau of Economic Analysis and the U.S. Census Bureau
2.3. Short-Term Outlook

Tennessee, like the national economy (see Chapter 1), will see a slower pace of economic expansion in 2007, followed by somewhat stronger growth in 2008. Personal income in Tennessee should rise 5.5 percent in 2007 then rebound with 5.7 percent growth in the following year. Personal income for the national economy will grow 5.1 percent this year and 5.5 percent in 2008. State job growth will tally a 1.2 percent gain in 2007 and a 1.3 percent gain in 2008; the national economy is expected to see nonfarm job growth of 1.0 percent and 1.3 percent. Table 2.1 on page 22 provides a synopsis of the state and national outlook, while Appendix A provides more detail on the state’s economic outlook.

**Income and taxable sales**

Personal income growth will slow slightly in 2007 due to a combination of slower job growth and slower growth in the average wage. Income growth for 2007 is expected to be 5.5 percent and growth for 2008 will be 5.7 percent. Between 2001 and 2005, annual average wage and salary growth has hovered between 2.8 percent and 4.1 percent. But in the first two quarters of 2006 the average wage was up 8.0 percent and 6.4 percent (seasonally-adjusted annual rates). Expect the average and wage and salary to be up 4.2 percent in 2007 versus 5.5 percent last year. Proprietors’ income will see some improvement with 5.0 percent growth in 2007 and 6.0 percent growth in 2008. Nominal per capita personal income in Tennessee should grow 4.5 percent this year and 4.8 percent in 2008.

Taxable sales should advance 4.2 percent in 2007 improving to 5.3 percent growth in 2008 as construction sector activity regains its footing. Automobile dealer sales, which contracted in 2005 and 2006 will slip further in 2007 and then engineer positive growth in 2008. All other broad sectors should see net gains in sales in both 2007 and 2008. On a fiscal year basis, taxable sales should be up only 3.6 percent in 2006/07, with growth improving to 5.0 percent in 2007/08.
2.3. Short-Term Outlook, continued

Jobs and the unemployment rate

Nonfarm job growth will continue to be driven by growth in the service sectors as shown in Figure 2.5. Professional and business services, along with leisure and hospitality services, will enjoy the strongest growth. Construction sector jobs will register a 1.5 percent gain in 2007, less than one-half the rate of job expansion that took place in 2006. No collapse in the construction sector is anticipated. While the housing sector is weak, the non-residential construction sector is reasonably healthy.

Manufacturing jobs will fall 0.6 percent in 2007 and 0.4 percent in 2008 following a 1.2 percent setback in 2006; the national economy will also see a loss of manufacturing jobs in each year. Both nondurable goods and durable goods jobs in Tennessee are expected to fall in 2007; the durable goods sector is expected to eke out a small gain next year, though the nondurable goods sector should continue to contract.

Tennessee’s unemployment rate will average 4.8 percent in 2007. But the unemployment rate will rise slightly as the year unfolds in the face of slower job growth. After peaking at 5.0 percent in the fourth quarter of the year, the quarterly unemployment rate should fall to 4.9 percent and remain at this level for the remainder of the short-term outlook period. Labor force growth will come in at 2.2 percent in 2007 following 2.4 percent growth in 2006.
### 2.3. Short-Term Outlook, continued

#### Table 2.1. Selected U.S. and Tennessee Economic Indicators, Seasonally Adjusted

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<td>35439</td>
<td>36641</td>
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<tr>
<td>% Chg Prev Qtr SAAR</td>
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<td>5.39</td>
<td>5.48</td>
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<td>38551</td>
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<tr>
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<td>6.59</td>
<td>4.79</td>
<td>5.47</td>
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</table>

Center for Business and Economic Research, University of Tennessee
2.4. Situation and Outlook for Tennessee Agriculture

Overview of agriculture in Tennessee
Tennessee Farms. In 2005, the number of farms in Tennessee continued a decades-long decline from 274,000 farms in 1935, to 92,000 farms in 1995, to 84,000 farms in 2005. Despite this decline in numbers, Tennessee ranks fourth among all states in the number of farms. Tennessee is twenty-fifth in total land in farms (11.6 million acres) and forty-fourth in average size of farms (138 acres), up from 136 acres the year before. Only 4,000 Tennessee farms report sales in excess of $100,000, with most farm families dependent upon off-farm employment for a portion of their household income. The average value of farmland, including land and buildings, rose from $1,340 per acre in 1995, to $2,100 per acre in 2000, to $3,070 in 2005, a 229 percent increase over the last decade.

Agricultural Products in Tennessee. Agriculture in Tennessee is very diverse. Tennessee’s top agricultural commodities include cattle and calves, broilers, greenhouse/nursery, soybeans, cotton, dairy products, corn, tobacco, hogs, hay, tomatoes, eggs, wheat, snap beans, grain sorghum, apples, peaches, farm chickens, squash, and sheep and lambs. In 2005, all agricultural commodities in Tennessee generated more than $2.5 billion in cash receipts, down marginally from 2004. Crops and livestock products contributed nearly equally to Tennessee agricultural cash receipts.

Figure 2.6 shows the relative share of cash receipts by commodity. One in every three dollars in market receipts in Tennessee is from cattle and calves ($500 million) or broilers ($431 million), although cash receipts for both were down from 2004. Cash receipts for
2.4. Situation and Outlook for Tennessee Agriculture, continued

dairy products declined in 2005 to $176 million from $193 million a year earlier. Nursery and greenhouse production led all crops in cash receipt at $273 million (11 percent), the same as 2004. Soybeans retained its second place ranking among crops with cash receipts of $248 million, down $16 million from the previous year. Cotton bounced back from $155 million in cash receipts in 2004 to $233 million in 2005. Corn suffered from lower yields and harvested acreage with cash receipts falling from $156 million in 2004 to $151 million in 2005. Tobacco income in Tennessee has fallen dramatically over the last several years, falling from a leading cash crop generating nearly a quarter of a billion dollars annually in receipts to $109 million in 2005. Tennessee ranks second among all states in production of equine and meat goats, third in production of tobacco and snap beans, and fourth in non-alfalfa hay. Tennessee produces 44 percent of all dark fire-cured tobacco, 17 percent of all burley tobacco, and 12 percent of all snap beans grown in the U.S.

Tennessee exported $62 million in agricultural products in fiscal year 2005 with soybeans and soybean products leading the way with $9 million followed by feed grains and products ($7 million), wheat and products ($6 million), and vegetables and preparations ($6 million). Canada, Mexico, United Kingdom and Japan are the major markets for Tennessee’s agricultural exports.

**Impact of Agriculture on the Tennessee Economy.** Despite the declining numbers and small size of farms, agriculture remains an important component of the state’s economy. One way to understand the importance of agriculture is to recognize that businesses like fertilizer plants, farm chemical dealers and applicators, repair shops, and implement dealerships are dependent on farmers as their customer base. In addition, value-added industries like food processing plants, apparel manufacturing, and animal food mills are often dependent upon locally produced agricultural products. In addition, farmers and the employees of all of these secondary agriculture firms purchase goods and services in the local communities. When looked at together, the economic impact of these activities provides a measure of the importance of agriculture to the economy of the state as a whole and each of its 95 counties. The percentage of total economic activity that is generated by agriculture gives a measure of the degree to which each county is agriculturally-dependent.¹

More than 40 percent of the economic activity in six Tennessee counties is agriculturally related (see Figure 2.7). At the top of the list is Moore County, where nearly 80 percent of the economic activity in the county is agriculturally related. Farming generates only a little over three percent of the county’s economic activity, with the distillery industry and supporting businesses providing the rest. In Crockett County, the frozen foods industry is the driving

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2.4. Situation and Outlook for Tennessee Agriculture, continued

A force that adds to the economic activity of the county’s direct agricultural production (10 percent), resulting in nearly 64 percent of the economic activity in the agriculturally-dependent category. The bulk of Tipton County’s 51 percent agriculturally-dependent economic activity is generated by firms categorized as producers of dry, condensed, and evaporated dairy products. The fiber, yarn, and threads milling industry is behind Meigs County’s 46 percent measure. In Weakley County and Lawrence County, the lawn and garden equipment industry contributes significantly to agriculturally-related activity of 44 and 43 percent, respectively.

In 2003, another nine counties attributed at least a quarter of their economy as agriculturally-dependent: Haywood (39 percent), Bedford (37), Polk (35), Jefferson (32), Marion (32), Johnson (27), Putnam (27), Grundy (26), and Loudon (26). Another 11 counties derived between 15 and 25 percent of their economic activity from agriculturally-dependent activities. The impact of agriculturally-related industries is not limited to the more rural counties of the state. Counties with large urban populations like Shelby County (Memphis) and Hamilton County (Chattanooga) saw over 10 percent of their economic activity fall into the agriculturally-related category even though primary agriculture in those counties accounted for less than one-tenths of one percent of the county’s total economic activity. For the state as a whole, three-quarters of one percent of all economic activity is generated by farming activities while over 12 percent of the state’s total economic activity is agriculturally-dependent with a significant portion of that coming from those who provide goods and services to those engaged in primary and secondary agriculture.

Figure 2.7. Percent of agriculturally-related economic activity, 2003

2.4. Situation and Outlook for Tennessee Agriculture, continued

Tennessee Agricultural Sector Outlook

Farm Income. Net farm income for Tennessee farmers increased by 50 percent, from $596 million in 2004 to $894 in 2005. All of the increase and more in net farm income can be attributed to an increase in direct government payments from $159 million in 2004 to $509 million in 2005. In 2004, 27 percent of Tennessee net farm income came from government payments while in 2005, that number rose to 57 percent. Between 1990 and 1997, government payments accounted for 15 percent of net farm income in Tennessee. By way of contrast, between 1998 and 2005, 45 percent of net farm income for Tennessee farmers came from government payments. The USDA estimates that, nationally, farm income for 2006 will be 20 percent below 2005 levels. The decline is primarily caused by a combination of increased operating expenses and decreased government payments.

Crops Outlook. In 2006 Tennessee farmers harvested 510 thousand acres of corn, 17 percent fewer acres than they harvested in 2003. Unlike national corn yields, recent Tennessee corn yields have not increased. The 2006 Tennessee corn yield was 125 bushels per acre, down marginally from 130 bushels a year earlier and 140 bushels in 2004. The high price of oil and the large number of ethanol plants coming online nationally sent corn prices soaring in the last four months of 2006. November 2006 price received by Tennessee farmers was $3.50 per bushel compared to $2.06 per bushel a year earlier. Given a tight supply of corn for the next year and increasing ethanol demand, corn prices could remain at higher levels for the foreseeable future. The effect of higher corn prices has resulted in modest increases in the price of soybeans and wheat.

Harvested soybean acreage has remained stable in Tennessee over the last four years, at 1.13 million acres in 2006, after reaching a high of 1.18 million acres in 2004. Yields for 2005 and 2006 were 38 bushels per acre compared to 42 and 41 in the two prior years. While farmers will continue to scout for signs of Asian Soybean Rust, the disease has not had a measurable effect on the Tennessee soybean crop, and it will not be a major factor in farmers' planting decisions. Soybeans enjoy a higher profitability level in Tennessee than corn and with higher soybean prices ($6.55 per bushel in November 2006 compared to $5.77 a year earlier), some acreage may move from less profitable crops into soybeans in 2007.

2006 Tennessee cotton yields were a record high 905 pounds per acre, up 57 pounds per acre from 2005. The previous Tennessee record yield (900 pounds per acre) was set in 2004. A decade earlier Tennessee yields were in the 600 pounds per acre range. Harvested acres increased as well from 635 thousand acres in 2005 to 695 thousand acres in 2006. Since 2003, harvested cotton acreage has increased 165 thousand acres. With increased yields and harvested area, Tennessee farmers set a state record, producing 1.31 million bales of cotton. Wheat production in Tennessee is on a decline with 190 thousand acres harvested in 2006 compared to 280 thousand acres harvested in 2004. 2006 yields were excellent (64 bushels per acre), up 8 bushels per acre from a year earlier. Hay acreage in 2006 (1.84 million acres) was down by 205 thousand acres from 2003 crop levels. Tobacco acreage continued to decline, dropping from 23 thousand acres in 2005 to 20 thousand acres in 2006. In 2003 tobacco was planted on 31 thousand acres.
2.4. Situation and Outlook for Tennessee Agriculture, continued

Acreage used for 2005 fresh market tomato production in Tennessee declined to 5,200 acres from 5,900 acres in 2004. At the same time, the yield increased by 40 hundredweight to 240 hundredweight per acre. With an average price of $34 per hundred weight, the value of Tennessee fresh tomato production increased to $42.4 million dollars. In 2005, fresh market snap beans were harvested on 10,500 acres with a yield of 63 hundredweight per acre. Along with an increase in price from $33 per hundredweight to $36 per hundredweight, the value of snap bean production was $23.8 million. Fresh market squash generated a value of production of $1.5 million on a harvested area of 1,000 acres, below the $2.1 million generated in 2004. Lower price and reduced yields brought about the fall in revenue.

Livestock Outlook. 2006 cattle prices were generally below those of a year earlier as the result of large feedlot inventories, continued heavy cow slaughter, and slower-than-anticipated increases in beef exports. Higher hay and corn prices put additional pressure on livestock profitability. The continued expansion of corn-based ethanol production in 2007 has the potential to keep upward pressure on corn prices and livestock production costs. Cattle producers will be better able to adjust to this price increase than poultry because of the ability to add distiller dry grains, a coproduct of corn ethanol production, to cattle rations. Cattle producers can also reduce the impact of higher feed prices by holding cattle on pasture for a longer period allowing them to achieve a heavier weight before they are put on feed.

2006 average wholesale broiler price is projected by the United States Department of Agriculture (USDA) to be $64.30 per hundredweight, significantly below 2004 ($74.10) and 2005 ($70.80). The 2006 broiler production showed little increase over 2005 levels. USDA projects a slight increase in broiler production for 2007, with prices between $65 and $70. Rising feed costs resulting from the ethanol demand for corn are expected to reduce profitability in the first half of 2007. Hog prices dropped slightly in 2006 and profitability will be under pressure from increased feed costs. Modest production increases are projected for 2007, along with a modest price increase. As a result of increased milk production per cow, milk production is projected to increase in 2007 despite lower cow numbers. Even so, milk prices are projected to increase slightly.

Agricultural sector issues and opportunities

Bioenergy. A burgeoning ethanol industry spurred on by farmer and commercial investments, a favorable energy policy, higher oil prices, and movement toward renewable energy sources drove up corn prices significantly in the last five months of 2006. Analysts are projecting that, within a year or two, half of the US corn crop could be used for ethanol production. At the same time that corn-to-ethanol plants are coming on line, research is raising the possibility that cellulosic biomass will eventually overtake corn as the primary feedstock for ethanol plants. In Tennessee, with its relatively small corn production levels, the current focus is on the development of a cellulosic-based ethanol industry. Successful development of an economically competitive cellulosic bioeconomy has the potential to have a significant impact on Tennessee agricultural production and agriculturally-related economic activity in the next four to five years.
2.4. Situation and Outlook for Tennessee Agriculture, continued

In Tennessee, the introduction of commercial biodiesel plants is farther along than ethanol production facilities. Biodiesel can be mixed with petroleum diesel or used alone in diesel engines. The first biodiesel plant opened in Tennessee in November 2005, followed by five more plants in 2006. The range of feedstock material for these plants includes virgin soybean oil and local yellow grease, with some plants capable of handling multiple feedstocks. The University of Tennessee, Department of Agriculture, Department of Economic and Community Development, Tennessee Valley Authority, and Oak Ridge National Laboratory, in addition to other public and private organizations and institutions are ramping up to move bioenergy forward in the state and capture potential benefits, including significant ag sector and economic development benefits.

If current projections come to fruition, the biofuels industry will take its place alongside whiskey distilleries, frozen food plants, dairy processors, thread mills, and lawn and garden equipment manufacturing industries in boosting the role of agriculturally-related activities in the state’s growing economy.

**Future Farm Policy.** Every farm bill is influenced disproportionately by the current economic and political conditions in the farm sector and the larger economy at the time the bill is written and certainly that will be true for the 2007 Farm Bill. The current farm bill (set in place in 2002) is scheduled to expire in 2007 and Congressional leaders have said that they hope to have the new legislation in place by late summer or early fall 2007. Based on history, the most likely outcome for the 2007 Farm Bill is only modest changes from the 2002 Farm Bill. However, several forces are coalescing that could put enough pressure on the delicate farm policy balance to trigger more significant changes to the nation’s farm policy. These include the large and growing federal budget deficit, negotiations and obligations under the World Trade Organization (WTO), interest and emphasis on renewable energy, and the public perception that farm programs are not achieving their objectives (or rather, widespread misperception about the real objectives and expectations of current farm policy). Some of the proposals under discussion would reduce current subsidy levels and move the money into other programs. Some of the programs under current discussion are revenue insurance, rural development, energy production, farmland preservation, and environmental programs like the Conservation Security Program—a program that was a part of the 2002 Farm Bill, but never fully funded. The stalled WTO negotiations will likely reduce the pressure to design the legislation with trade rules in mind.